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Milk Distributors

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**Sales and Costs
Jan.-Mar. 1961**

U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service

MDSC No. 18

MILK DISTRIBUTORS' SALES AND COSTS

January - March 1961

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: This report is the current issue of a series based upon information :
: obtained from distributors of fluid milk and cream products. These :
: distributors are subscribers to a cost comparison service which :
: furnished the Department with tabular data for analysis. A uniform :
: accounting system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of raw milk :
: and other raw materials; prices and quantities of products sold; :
: and operating costs. :
:
: The firms selected are privately owned, and chiefly single-plant :
: firms. In these characteristics they are considered to be typical. :
: Very small firms, very large firms, national chains, and producer- :
: distributors are not included. :
:

SALES AND COSTS

In the January-March quarter of 1961, sales value and cost of materials for fluid milk distributors per 100 pounds of milk and cream processed were down seasonally but were up from a year earlier. Both operating costs and net margin were up seasonally and above a year earlier. (table 1)

Net Sales Receipts

Net sales receipts were \$11.35 per 100 pounds of milk and cream processed in the January-March quarter of 1961--down 1/2 percent from the October-December quarter of 1960 but up 1 1/2 percent from January-March 1960 (fig. 1). Although the January-March quarter of 1961 was the highest level for the first quarters of the past 5 years, net sales value has been stable during this period: \$11.35 in 1961 was less than 1 percent above 1956 and only 4 percent above 1959, the low for the period.

Cost of Materials for Processing and Resale

Cost of materials for processing and resale was \$5.95 per 100 pounds of milk and cream processed in the January-March quarter, 1961--down 30 cents from the previous quarter (which was more than seasonally high), but up 3 cents from January-March 1960. Of the decrease of 30 cents from the previous quarter, 21 cents was for raw milk and cream and 9 cents was for other raw materials. Raw milk and cream was 3 cents less and other raw materials were 6 cents more, than a year earlier.

In the first quarters of the past 5 years the cost of raw materials for processing and resale has ranged narrowly between the high of \$6.03 in 1956 and \$5.82 per 100 pounds of milk and cream processed in 1959. Cost of raw milk and cream, for

July 1961

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-60, and for the 5 most recent quarters

Account	Yearly average												1961		
	1952	1953	1954	1955	1956	1957	1958	1959	1960	Jan. - Mar.	Apr. - June	July - Sept.	Oct. - Dec.	Jan. - Mar.	
	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	Dol.	
Net sales receipts 1/.....	11.32	11.12	10.69	10.95	11.22	11.15	11.05	11.16	11.25	11.19	11.17	11.23	11.41	11.35	
Cost of materials for processing and resale:															
Raw milk and cream.....	5.85	5.43	5.07	5.12	5.39	5.23	5.13	5.10	5.11	5.16	4.88	5.03	5.34	5.13	
Other.....	.82	.86	.83	.89	.76	.77	.70	.80	.87	.76	.89	.93	.91	.82	
Total.....	6.67	6.29	5.90	6.01	6.15	6.00	5.83	5.90	5.98	5.92	5.77	5.96	6.25	5.95	
Gross margins.....	4.65	4.83	4.79	4.94	5.03	5.15	5.22	5.26	5.27	5.27	5.40	5.27	5.16	5.40	
Operating costs:															
Salaries, wages, and commissions 2/.....	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.61	2.62	2.63	2.64	2.64	2.58	2.67	
Containers.....	.60	.62	.65	.70	.72	.71	.70	.69	.66	.66	.65	.67	.65	.66	
Operating supplies.....	.30	.32	.35	.32	.28	.29	.29	.29	.30	.30	.30	.30	.30	.30	
Repairs, rent, and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.67	.66	.66	.65	.67	.65	.67	
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.06	.06	.06	.06	
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.05	.05	.05	.05	.05	.05	
Services.....	.16	.19	.19	.18	.17	.17	.17	.17	.18	.16	.17	.20	.18	.16	
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.18	.17	.18	.19	.20	.18	
General.....	.15	.13	.13	.14	.16	.15	.16	.16	.15	.14	.15	.15	.18	.15	
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.87	4.86	4.83	4.85	4.92	4.85	4.90	
Net margins 3/.....	.56	.63	.44	.44	.35	.38	.38	.39	.41	.44	.55	.35	.31	.50	
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80	80	80	80	

1/ Gross sales receipts less discounts, allowances, and returns.

2/ Includes State unemployment, Federal old age, workmens' compensation, and employee benefits.

3/ Net returns to owners before income taxes.

these 5 first quarters only ranged between \$5.29 in 1957 and \$5.13 in 1961. Costs of raw materials as percentage of sales value declined slightly to 52.4 in 1961 from 54.5 in 1956.

Operating Costs

In the January-March quarter of 1961, operating costs moved contra-seasonally and were higher than the previous quarter (fig. 2). They were also higher than a year earlier. The increase in operating costs does not necessarily indicate another rising trend but rather, may reflect the result of worse than usual weather in this quarter.

This would be indicated by the increased personnel costs. In previous years personnel costs in the first quarters have been lower than in the last quarters.

Net margin, before income taxes, was 50 cents per 100 pounds of milk and cream processed, the highest for any first quarter since 1956. This net margin is equivalent to about 1.08 cents on a per quart basis before income taxes or about .55 cent per quart after income taxes.

WAGES, LABOR OUTPUT, AND UNIT COSTS OF LABOR FOR FLUID MILK PLANTS, JULY-SEPTEMBER, 1960

Wages, labor output, and unit labor costs were somewhat related to size in the fluid milk plants (classified as small, medium and large) covered by this report. Large plants paid the highest average wages for all workers and the highest wages for deliverymen; small plants paid the lowest average wages and the lowest wages for deliverymen and office workers. Large plants had the most labor output for

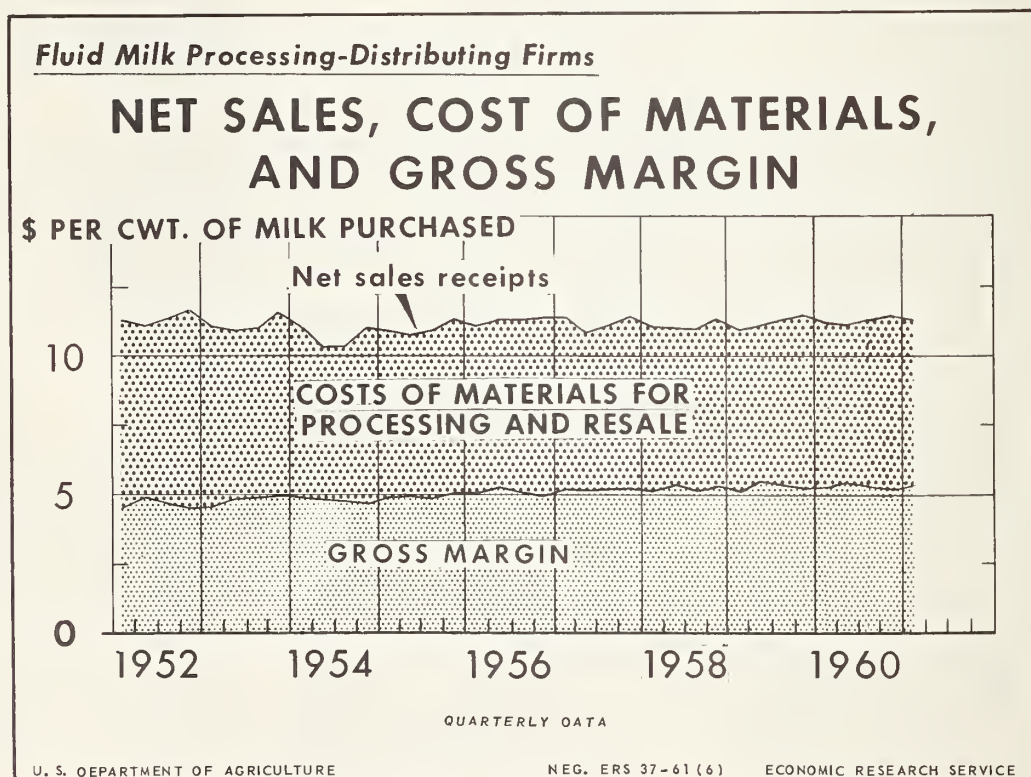
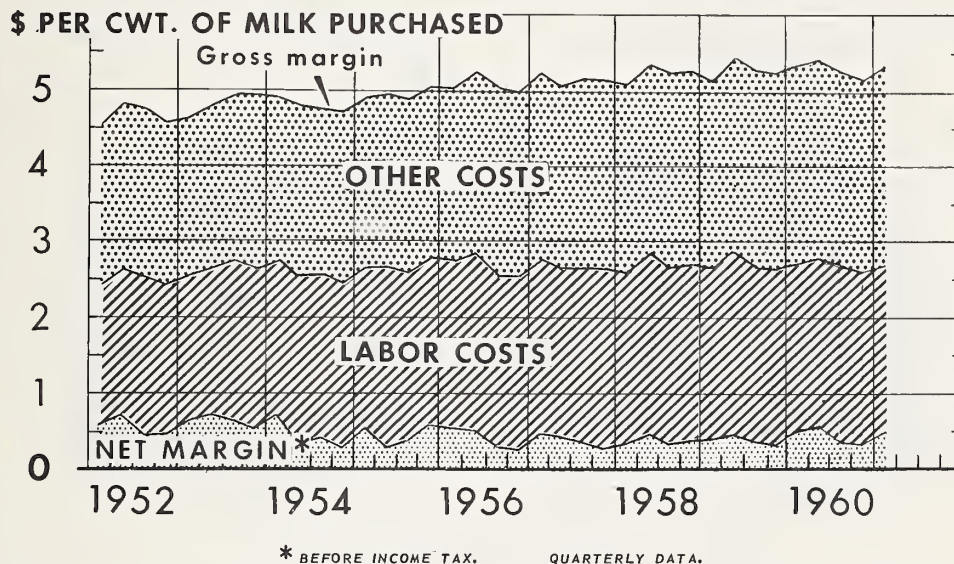


Figure 1

OPERATING COSTS



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Figure 2

plant and office workers, but the least labor output for deliverymen.

Output, measured in terms of hundredweight of product per hour of labor, was closely associated with wage levels when plants are classified by high, medium, and low wage rates. Output increased as wages increased for all categories of labor. One or two factors were probably involved: First, high wages provided an incentive for management to mechanize operations; second, wages reflected the level of skills required in plants with various levels of mechanization. However, except for office workers, greater output generally was not sufficient to offset higher wages; consequently, unit costs measured in terms of labor cost per hundredweight of product were, on the average, also higher.

Plant Workers

Average wages for plant workers varied relatively little among plants by size categories (fig. 3). The range in wages was from \$0.94 to \$2.86 per hour for large plants, \$1.24 to \$2.96 for medium size plants, and \$1.10 to \$3.96 for small plants. Output and unit costs of plant labor, on the other hand were closely related to plant size. Large firms, as a group, paid only 1 percent more than average wages; but output was 6 percent more than average, and labor costs per unit were 6 percent below average.

Medium size plants paid below average wages by 4 percent; but output was 7 percent below average, and unit costs were above average by 4 percent. Small plants paid nearly 4 percent below average wages but had the least output (18 percent below average); therefore, unit costs were above average by more than 20 percent.

PLANT WORKERS-FLUID MILK PLANTS

Effect of Wages and Output on Unit Costs, July-Sept. 1960

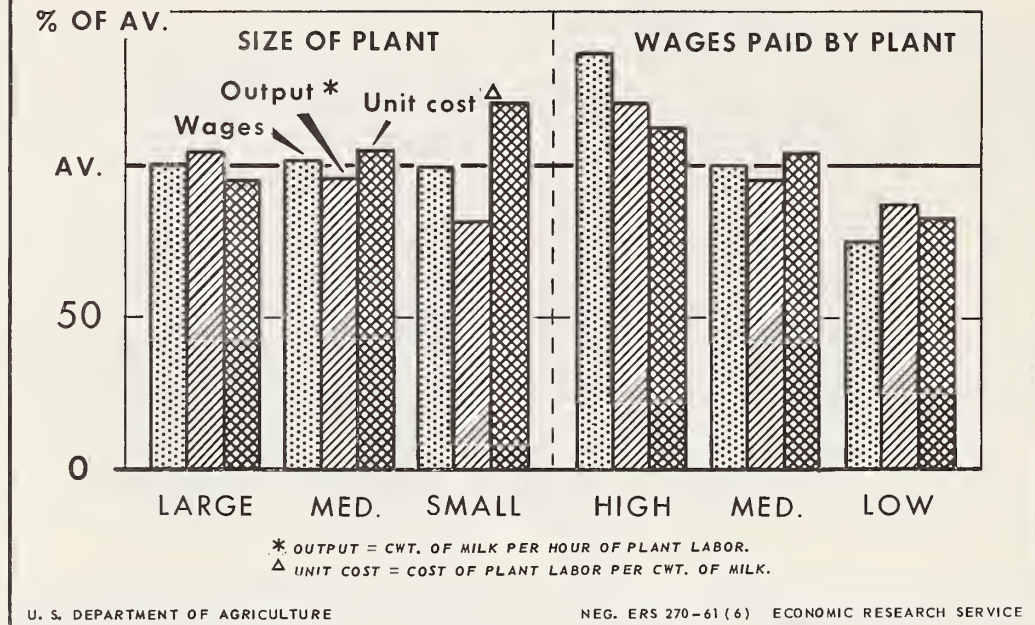


Figure 3

Output was closely related to rate of wages for plant workers: Wages for plants with high rates (range--\$2.29 to \$3.96 per hour) were 37 percent above the average for all plants. Labor output of 22 percent more than average, offset most of the high rates: Unit costs were 12 percent above average.

Wages for plants with medium rates (range--\$1.72 to \$2.26 per hour) were about average. Output of 5 percent less than average resulted in unit costs above average by 4 percent.

Wages for plants with low rates (range--\$0.94 to \$1.64 per hour) were 26 percent below average. Much of this saving was lost in a very low output of 18 percent below average. Unit costs were 11 percent below average.

Deliverymen

For deliverymen, rates of wages were somewhat related to size of enterprise. The largest firms had the highest average wages and the smallest firms, the lowest average (fig. 4). This same relationship also held for the upper and lower limits of the ranges for each size category: For large plants the range was from \$1.47 to \$4.34 per hour; for medium sized plants, \$1.31 to \$3.69; and for small plants, \$0.94 to \$3.52.

The delivery function apparently does not lend itself to economies of scale: Output of delivery labor was not related to size of plant. Large plants paid the highest wages, 3 percent above average, but they also had the least output--5 percent below average. As a result, unit costs were 8 percent above average.

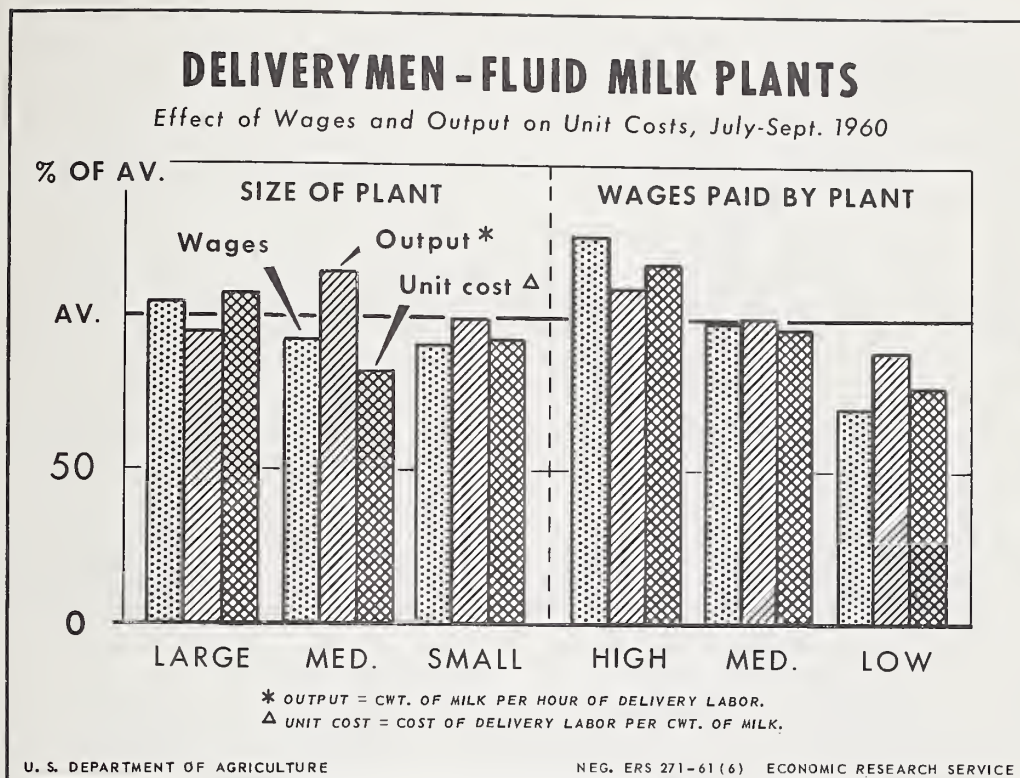


Figure 4

Wages in medium sized plants were 4 percent below average, while output was 15 percent more than average. Consequently, unit costs were more than 17 percent below average. Since delivery costs are about 20 percent of total costs, apparently the medium size firms, as a group, have a real competitive advantage in distribution. Factors explaining this advantage have not been analyzed.

Small plants, as a group, paid the lowest wages--8 percent below average. Output was slightly less than average and unit costs were 7 percent below average.

Output of deliverymen increased as wages increased, but not in direct proportion. Therefore higher wages resulted in higher unit costs.

Plants with high wages (range--\$2.65 to \$4.34 per hour) paid, as a group, 30 percent more than average. Output was 18 percent more than average and unit costs were 10 percent above average.

Plants with medium wages (range--\$2.11 to \$2.60 per hour) paid, as a group, about 1 percent below average. Output was slightly more than average and unit costs were about 2 percent below.

Plants with low wages (range--\$0.94 to \$2.04 per hour) paid 29 percent below average: The effect of this on unit costs was partially cancelled out by output that was 11 percent less than average. Unit costs were 20 percent below average.

Office Workers

For office workers, size of plant was a factor in wages, output and unit cost. Wages and output increased as size of plant increased; unit cost decreased as size increased (fig. 5). Ranges in wages also coincided with size: Large plants paid \$1.36 to \$2.61 per hour; medium size plants, \$1.13 to \$2.27; and small plants \$0.94 to \$2.07.

Large plants, as a group, paid about average wages; output was 2 percent more than average; and unit costs were below average by the same amount. In medium sized plants wages were slightly above average; however, output was 4 percent less than average, resulting in unit costs 5 percent above average.

For small plants wages were 8 percent below average; the effect of low earnings was more than cancelled out by 16 percent below average output: Unit costs were 8 percent above average.

High wages were accompanied by high output but not in direct proportion. Plants with high wages (range--\$1.98 to \$2.61 per hour) paid 16 percent above average. This was more than offset by output of 20 percent more than average; unit costs were 3 percent below average.

Plants with medium earnings (range--\$1.73 to \$1.97 per hour) paid 2 percent above average wages but had 3 percent below average output; unit costs were above average. Plants with low earnings (range--\$0.94 to \$1.65 per hour) paid 19 percent below average wages; output was almost as low, resulting in unit costs of almost average.

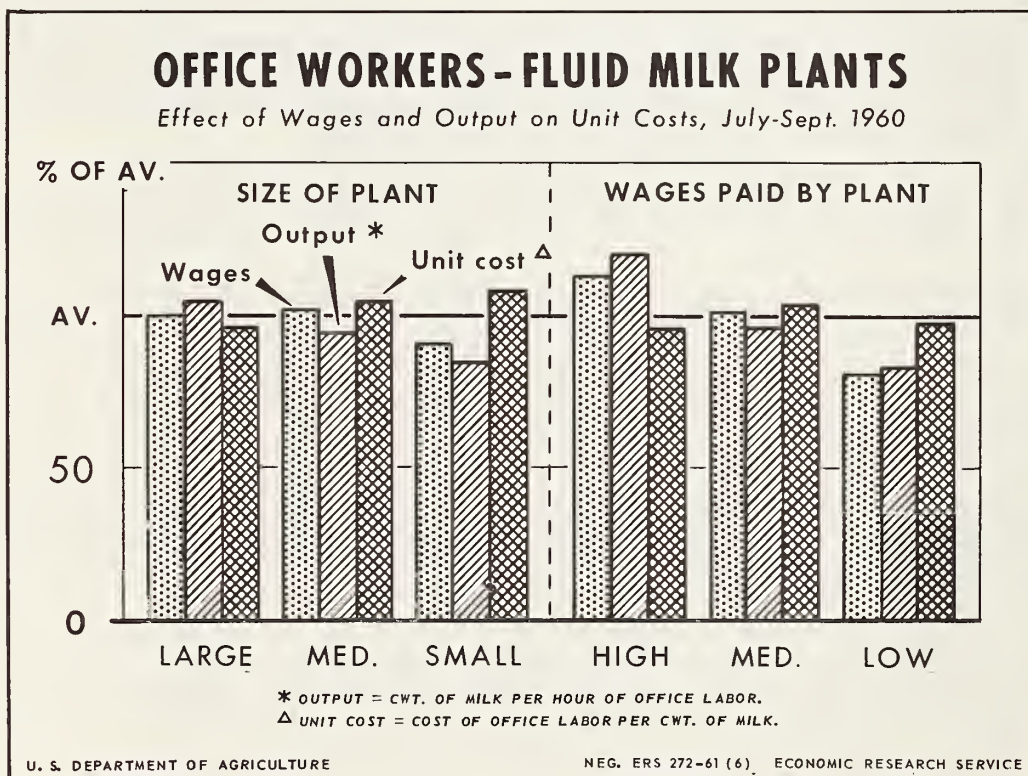


Figure 5